

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-12 ISO-00 AID-05 CIAE-00 COME-00  
FRB-01 INR-10 NSAE-00 USIA-15 TRSE-00 XMB-04  
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15  
STR-07 CEA-01 PA-02 /112 W  
-----081424 221215Z /23

P 220928Z MAR 78  
FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC PRIORITY 6360  
TREASURY/DEP WASHDC PRIORITY  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME

UNCLAS SECTION 01 OF 03 TOKYO 04606

USEEC  
USOECN ALSO FOR EMBASSY

E.O. 11652: N/A  
TAGS: EFIN, JA  
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - MARCH 16-  
22

1. SUMMARY: DESPITE SUBSTANTIAL BANK OF JAPAN (BOJ)  
INTERVENTION, THE YEN SURGES TO THE 230 TO THE DOLLAR  
LEVEL. FACTORS CITED INCLUDE THE \$1.9 BIL FEB CURRENT  
ACCOUNT SURPLUS AND ADVERSE MARKET REACTION TO DISCOUNT  
RATE CUT AND FURTHER RESTRAINTS ON CAPITAL INFLOWS. IN  
THE AFTERMATH, THE SEARCH FOR OTHER MEANS OF HALTING YEN  
APPRECIATION ACCELERATES: MEASURES UNDER CONSIDERATION OR  
PROPOSED INCLUDE CHANGES IN THE EXCHANGE RATE REGIME,  
EXPORT RESTRAINTS AND ENCOURAGEMENT OF THE YEN SHIFT. END  
SUMMARY.

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2. THIS PAST WEEK SAW THE YEN REACH ANOTHER POSTWAR HIGH,  
OF YEN 230 TO THE DOLLAR. FROM ITS THEN POSTWAR HIGH OF  
233 TO THE DOLLAR LAST TUES, MARCH 14, THE YEN BACKED OFF  
ON WED, MARCH 15, TO CLOSE AT 234.50. HOWEVER, FOLLOWING  
ANNOUNCEMENT LATE MARCH 15 OF THE DISCOUNT RATE CUT (OF  
0.75 PERCENT, TO 3 1/2 PERCENT: TOKYO 04201) AND OF

FURTHER RESTRICTIONS ON FOREIGN PURCHASES OF JAPANESE BONDS COUPLED WITH AN INCREASE IN THE RESERVE REQUIREMENT IMPOSED ON NON-RESIDENT FREE YEN DEPOSITS (TOKYO 04202), THE YEN ON MARCH 16 TRADED AS HIGH AS 232.30. IT REACHED THIS LEVEL DESPITE REPORTED \$450 MIL IN PURCHASES BY THE BOJ SEEKING TO HOLD THE RATE AT 233. ONE WIDELY CITED MARKET REACTION TO THE MEASURES ANNOUNCED MARCH 15 WAS THAT THE GOVT HAD THUS EXHAUSTED ITS POSSIBILITIES FOR STEMMING THE YEN SURGE. THIS SENTIMENT COMBINED WITH ANNOUNCEMENT OF A \$1.9 BIL FEB CURRENT ACCOUNT SURPLUS MARCH 16 (TOKYO 04265) TO DRIVE THE YEN TO THE 230 LEVEL ON FRIDAY, MARCH 17, DESPITE \$300 MIL IN BOJ PURCHASES. ALTHOUGH A BETTER TONE WAS HOPED FOR AS A RESULT OF REPORTED NEW YORK FED INTERVENTION ON BEHALF OF THE BOJ ON FRIDAY, MARCH 17, WHEN THE MARKET OPENED IN TOKYO ON MONDAY, MARCH 20, THE BOJ IS BELIEVED TO HAVE HAD TO PURCHASE \$300 MIL IN THE FIRST 30 MINUTES OF TRADING TO HOLD THE YEN AT 230. ESTIMATES ARE NOW CIRCULATING THAT THE BOJ HAS SPENT \$4 1/2 BIL IN ITS EFFORTS TO BRAKE YEN APPRECIATION THUS FAR THIS YEAR. (THE MARKETS WERE CLOSED ON TUES, MARCH 21, FOR THE EQUINOX HOLIDAY.)

3. THE MOST RECENT YEN SURGE HAS LED TO A SPATE OF SPECULATION AS TO NEW DIRECTIONS THAT MIGHT BE FOLLOWED TO HALT YEN APPRECIATION. PUBLIC CONCERN FOCUSES NOT ONLY ON THE IMPACT OF APPRECIATION ON INDIVIDUAL INDUSTRIES BUT ON UNCLASSIFIED

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THE EFFECT ON THE PROSPECTS FOR ACHIEVING THE 7 PERCENT GROWTH TARGET FOR FY 1978. ANOTHER PART OF THE BACKGROUND ARE THE PUBLIC HINTS OF DISSATISFACTION THAT THE U.S.-GERMAN AGREEMENT ON EXCHANGE MARKETS LEFT THE YEN EXPOSED.

4. ONE TYPE OF STORY CIRCULATING WIDELY IS THAT THE GOVT IS CONSIDERING QUANTITATIVE CURBS OR A TAX ON EXPORTS IN ORDER TO GET AN IMMEDIATE HANDLE ON THE BALANCE OF PAYMENTS SURPLUS. IN A FRIDAY, MARCH 17 SPEECH LDP SECRETARY GENERAL OHIRA CALLED FOR A RETURN TO FIXED EXCHANGE RATES AS THE ONLY SOLUTION TO CURRENCY UPHEAVALS. ECONOMIC PLANNING AGENCY DIRECTOR GENERAL MIYAZAWA IN THE DIET MARCH 18 PROPOSED A FLEXIBLE VARIANT OF THE ROOSA PLAN FOR SETTING TARGET ZONES FOR KEY EXCHANGE RATES.

5. TODAY, MARCH 22, REPORTS HAVE BEGUN TO CIRCULATE THAT THE MINISTRY OF FINANCE (MOF) INTENDS TO PROMOTE THE YEN SHIFT IN FOREIGN TRADE FINANCING TO COPE WITH SHARP YEN APPRECIATION. THE YEN SHIFT WOULD BE EXPECTED TO WORK TO INCREASE DEMAND FOR U.S. DOLLARS TEMPORARILY AS JAPANESE IMPORTERS WOULD HAVE TO BUY DOLLARS IMMEDIATELY AFTER CUSTOMS CLEARANCE INSTEAD OF THE CURRENT PRACTICE OF

PURCHASING DOLLARS THREE OR FOUR MONTHS AFTER CUSTOMS CLEARANCE. THE MOF HAS REPORTEDLY BEEN CONSIDERING THE FOLLOWING THREE MEASURES TO PROMOTE THE YEN SHIFT: (1) RAISING RESERVE REQUIREMENTS (PRESENTLY 0.25 PERCENT) ON FOREIGN CURRENCY LIABILITIES OF COMMERCIAL BANKS, (2) ESTABLISHMENT OF MONTHLY TARGETS FOR INDIVIDUAL COMMERCIAL BANKS TO ACHIEVE IN SHIFTING TOWARD YEN FINANCING, AND (3) BOJ LENDING TO COMMERCIAL BANKS BEYOND PRESENT LOAN CEILINGS TO FACILITATE THE YEN SHIFT. THE MAGNITUDE OF THE HIKE IN THE RESERVE REQUIREMENT RATIO IS NOT INDICATED BUT A SUBSTANTIAL INCREASE APPEARS TO BE

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FRB-01 INR-10 NSAE-00 USIA-15 TRSE-00 XMB-04  
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15  
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P 220928Z MAR 78  
FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC PRIORITY 6361  
TREASURY/DEP WASHDC PRIORITY  
INFO AMEMBASSY BONN  
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UNDER CONSIDERATION, IF MOF INTENDS TO MAKE YEN FINANCING CHEAPER THAN DOLLAR FINANCING. ACCORDING TO THESE ACCOUNTS, THE YEN PRIME LENDING RATE IS CURRENTLY PUT AT 3.75 PERCENT PER ANNUM WHILE DOLLAR USANCE CREDIT RATE (WITH L/C, FOUR MONTHS) IS AROUND 7.9 PERCENT. HOWEVER, WITH THE FOUR-MONTH FORWARD YEN RATE IN TERMS OF SPOT YEN RATE RUNNING AT AN ANNUAL RATE OF AROUND 5 PERCENT AT PRESENT, THE EFFECTIVE COST OF DOLLAR FINANCING IS COMPUTED AS ROUGHLY ONE PERCENT LESS THAN YEN FINANCING. MOF REPORTEDLY ESTIMATES A 3 PERCENTAGE POINT INCREASE IN THE RESERVE REQUIREMENT ON FOREIGN CURRENCY LIABILITIES WOULD BE REQUIRED TO PUSH UP COST OF DOLLAR USANCE CREDITS BY AROUND 0.3 PERCENT. RE BOJ LENDING TO

COMMERCIAL BANKS TO ENCOURAGE THE YEN SHIFT, THE VOLUME OF  
BOJ LOANS TO INDIVIDUAL COMMERCIAL BANKS HAS BEEN REGULATED  
STRICTLY BUT BOJ WOULD, ACCORDING TO THE PRESS REPORTS,  
LEND BEYOND THESE CEILINGS ON THE BASIS OF COMMERCIAL  
BANKS' YEN-DENOMINATED IMPORT BILLS.  
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6. NIHON KEIZAI MARCH 19 REPORTS MOF INTENDS TO ASK  
JAPANESE SECURITIES UNDERWRITING FIRMS TO TAKE A MORE  
FLEXIBLE ATTITUDE WITH RESPECT TO ISSUE CONDITIONS FOR  
FOREIGN YEN BONDS. ASIAN DEVELOPMENT BANK (ADB) HAD  
PLANNED TO ISSUE YEN BONDS IN MARCH THIS YEAR BUT CANCELLED,  
REPORTEDLY COMPLAINING THAT IT IS UNREASONABLE FOR ADB  
BONDS TO CARRY THE SAME INTEREST RATE AS THE YEN BONDS OF  
DEVELOPING NATIONS IN ASIA TO WHICH ADB HAS BEEN EXTENDING  
LOANS. DURING JAN-MAR QUARTER OF THIS YEAR, ON THE EIGHT  
FOREIGN YEN BONDS PLACED IN JAPAN, INITIAL YIELDS TO SUB-  
SCRIBERS HAVE SHOWN ONLY MINOR DIFFERENCES, RANGING FROM  
6.75 PERCENT (FOR KOREAN INDUSTRIAL BANK BOND) TO 6.7  
PERCENT (FOR FINNISH GOVT BOND). THIS SMALL RANGE  
IS ATTRIBUTED BOTH TO THE CONTROLLED INTEREST RATE SYSTEM  
IN JAPAN AND TO JAPANESE BOND PURCHASERS' LACK OF RISK  
CONSCIOUSNESS. HOWEVER, FOREIGN INVESTORS HAVE BEEN MORE  
ACTIVE IN THE TOKYO BOND MARKET RECENTLY, IN PARTICULAR  
AFTER THE MARCH 15 ANNOUNCEMENT RESTRICTING FURTHER  
FOREIGN PURCHASES OF SHORT AND MEDIUM-TERM JAPANESE BONDS.  
SINCE FOREIGN YEN BONDS ARE EXCLUDED FROM THE RESTRICTION,  
FOREIGN PURCHASES OF YEN BONDS HAVE REPORTEDLY EXPANDED  
RAPIDLY, BRINGING WIDER DIFFERENCES IN BOND YIELDS ON THE  
SECONDARY MARKET ACCORDING TO THE CREDIT STATUS OF THE  
ISSUING INSTITUTION. MOF, CONCERNED THAT FIRST-RATED  
FOREIGN INSTITUTIONS WILL AVOID THE TOKYO BOND MARKET  
UNDER PRESENT PRACTICE, INTENDS TO TAKE ACTION TO GET  
UNDERWRITERS TO REFLECT DIFFERENCES IN SECONDARY MARKET  
BOND YIELDS IN ISSUE CONDITIONS OF YEN FOREIGN BONDS.

7. LABOR CONDITIONS, S.A., SHOW A MIXED PICTURE IN JAPAN.  
THE NUMBER OF UNEMPLOYED DECLINED TO 1.12 MIL IN JAN FROM  
1.18 MIL IN DEC 1977, THOUGH THE JAN UNEMPLOYMENT RATE  
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REMAINED UNCHANGED FROM PRIOR MONTH AT 2.1 PERCENT.  
(NOTE: PRIME MINISTER'S OFFICE, USING DIFFERENT SEASONAL  
FACTORS THAN EPA, REPORTS ALSO THAT JAN UNEMPLOYMENT RATE  
WAS 2.1 PERCENT.) OVERTIME WORKED IN MANUFACTURING

INDUSTRIES CONTINUED TO RISE IN JAN. JOB OFFERS/  
APPLICANTS RATIO, HOWEVER, DECLINED IN JAN AFTER SHOWING  
A TEMPORARY RECOVERY IN THE PRIOR MONTH.

LABOR CONDITIONS, S.A.

JEI NO SERIES(UNIT) 1977 1977 1978

385 JOB OFFERS/APPLICANTS

- RATIO 0.52 0.54 0.53

401 MFG. OVERTIME (1975 EQUALS

- 100) 138.7 142.0 142.9

378 UNEMPLOYED (THOUSANDS) 1140 1180 1130

379 UNEMPLOYMENT RATE (PCT) 2.1 2.1 2.1

421 UNIT LABOR COST (1975

- EQUALS 100 106.1 105.9 N/A

N/A LABOR PRODUCTIVITY, SEP OCT NOV

MACHINERY (1970 EQUALS 100) 176.3 172.9 185.0

NOTES: ALL SERIES ARE SEASONALLY ADJUSTED BY THE  
ECONOMIC PLANNING AGENCY. SEASONAL ADJUSTMENT FACTORS  
(EXCEPT FOR LABOR PRODUCTIVITY) HAVE BEEN REVISED FOR ALL  
MONTHS OF 1977 AS IS CUSTOMARY AT THE BEGINNING OF THE

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OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-07 CEA-01 PA-02 /112 W

-----081508 221007Z /20

P 220928Z MAR 78

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 6362

TREASURY/DEP WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS  
AMEMBASSY ROME

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YEAR. DATA ABOVE ARE ON NEWLY REVISED BASIS. OTHER  
HISTORICAL DATA ON NEWLY REVISED BASIS WILL BE AVAILABLE  
IN JEI, MARCH ISSUE, WHICH WILL BECOME PUBLICLY AVAILABLE  
AROUND THE END OF MARCH. NOTE THAT BASE YEAR FOR UNIT  
LABOR COSTS HAS BEEN CHANGED FROM 1970 TO 1975,  
BEGINNING WITH DEC 77 INDEX. MANSFIELD

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
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**Concepts:** ECONOMIC TRENDS, CURRENCIES, YEN (CURRENCY)  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
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**Disposition Event:**  
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**Office:** ACTION EB  
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**Subject:** FINANCIAL AND ECONOMIC DEVELOPMENTS - MARCH 16- 22  
**TAGS:** EFIN, JA  
**To:** STATE TRSY  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/15491fbf-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
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